

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: Road Commission for Oakland County Retirement Systems (Component Unit)	County Oakland
Audit Date December 31, 2005	Opinion Date April 21, 2006	Date Accountant Report Submitted To State: June 30, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48037
Accountant Signature 			

Road Commission for Oakland County Retirement System

**Financial Report
with Required Supplemental Information
December 31, 2005**

Road Commission for Oakland County Retirement System

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Independent Auditor's Report

To the Board of Trustees
Road Commission for Oakland
County Retirement System

We have audited the statement of plan net assets of the Road Commission for Oakland County Retirement System (a component unit of the Road Commission for Oakland County) as of December 31, 2005 and the statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Road Commission for Oakland County Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets available for benefits of the Road Commission for Oakland County Retirement System as of December 31, 2005 and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplemental information (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management, regarding the method of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

April 21, 2006



A worldwide association of independent accounting firms

Road Commission for Oakland County Retirement System

Management's Discussion and Analysis

Our discussion and analysis of the financial performance of the Road Commission for Oakland County Retirement System (the "System") provide an overview of the System's financial activities for the calendar years ended December 31, 2005 and 2004. Please read this in conjunction with the financial statements.

Using this Annual Report

This annual report consists of three parts: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required supplemental information. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below displays key financial information in a condensed format for the years ended December 31, 2005 and 2004:

	2005	2004
Total assets	\$ 178,072,466	\$ 184,283,813
Total liabilities	<u>15,430,417</u>	<u>25,109,942</u>
Net assets held in trust for pension benefits	<u>\$ 162,642,049</u>	<u>\$ 159,173,871</u>
Net investment income	\$ 7,709,996	\$ 12,988,117
Employer contributions	2,819,103	2,494,941
Purchased service credits	12,589	-
Net securities lending	35,471	36,168
Benefit payments	7,108,981	6,535,495

Road Commission for Oakland County Retirement System

Management's Discussion and Analysis (Continued)

Overall Fund Structure and Objectives

The System was established to provide retirement, disability, and death benefits to plan members, retirees, and their beneficiaries. Active members earn service credit that entitles them to receive benefits in the future. Benefits currently being paid are significantly greater than contributions currently being received. The excess of benefits over contributions must be funded through investment income. The public capital markets represent the primary source of investments.

Asset Allocation

In its statement of investment policy, guidelines, and objectives (SIPGO), the System's board of trustees (the "Trustees") established its asset allocation policies, which are expected to provide sufficient long-term investment income to satisfy the obligations to pay the benefits promised to the members of the System. The following is a summary of the asset allocation guidelines as of December 31, 2005 and 2004:

	2005	2004
Equities:		
Large cap growth	20.0%	17.5%
Large cap value	15.0%	17.5%
Mid cap core	15.0%	- %
Small cap core	5.0%	10.0%
International	10.0%	10.0%
Fixed income	35.0%	45.0%
Total	100.00%	100.00%

Economic Factors, Investment Returns, and Other Important Matters

In 2005, the U.S. stock market continued its third year of growth following its previous three-year decline. Led by a continued increase in productivity and by a sustained level in capital investment and inventory rebuilding, the equity markets provided investors with a positive rate of return. However, the short-term economic outlook remains cautious due to the continued uncertainty about future interest rate levels and oil product supply availability and price.

Road Commission for Oakland County Retirement System

Management's Discussion and Analysis (Continued)

Because the stock market is the principal investment forum utilized by the System, the market's 2005 market rate of return had a positive impact on the System. In 2005, the value of the System's net assets held in trust for pension benefits increased by 2.2 percent, following the prior year's increase of 6.0 percent. It is important to note that the System's purpose is to provide long-term benefit payments to its members and it is through long-term investing as shown by the current year increase that these promised benefits will be primarily funded. Through its investment policy asset allocation, the Trustees have positioned the portfolio for this long-term investment objective. In addition, to further maximize investment returns, the Trustees carefully monitor the performance of each of its investment managers and take the necessary corrective actions to ensure acceptable investment results.

Since the System receives all of its new funding from its plan sponsor, the Road Commission for Oakland County's annual contribution is critical for the System's long-term viability. The plan administrator diligently ensures that this actuarially computed amount is paid into the System.

Contacting the System's Financial Management

This financial report is designed to provide the public, citizens, and other interested parties a general overview of the System's finances and to show the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Oakland County administrative offices at 31001 Lahser Road, Beverly Hills, Michigan 48025.

Road Commission for Oakland County Retirement System

Statement of Plan Net Assets December 31, 2005

Assets

Cash and short-term investments	\$ 5,001,415
Receivables - Interest and dividends	583,785
Investments:	
U.S. government debt obligations	5,977,946
U.S. agencies debt obligations	26,239,586
Corporate debt obligations	24,036,507
Corporate equities	87,848,155
Mutual funds and other investments	13,409,112
Interest in investment pool	<u>14,975,960</u>
 Total investments	 <u>172,487,266</u>
 Total assets	 <u>178,072,466</u>

Liabilities

Accounts payable - Brokers and other - Net	454,457
Securities lending collateral payable	<u>14,975,960</u>
 Total liabilities	 <u>15,430,417</u>

Net Assets Held in Trust for Pension Benefits (a schedule of funding progress is presented in the required supplemental information)

\$ 162,642,049

Road Commission for Oakland County Retirement System

Statement of Changes in Plan Net Assets Year Ended December 31, 2005

Additions

Investment income:	
Interest and dividends	\$ 4,573,401
Net appreciation in fair value of investments	3,937,060
Less investment expenses	<u>(800,465)</u>
Net investment income	7,709,996
Employer contributions	2,819,103
Purchased service credits	12,589
Securities lending:	
Interest and fees income	572,306
Less borrow rebates and bank fees	<u>(536,835)</u>
Net securities lending	<u>35,471</u>
Total net additions	10,577,159

Deductions - Benefit payments	<u>7,108,981</u>
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Net Increase	3,468,178
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Net Assets Held in Trust for Pension Benefits

Beginning of year	<u>159,173,871</u>
End of year	<u><u>\$ 162,642,049</u></u>

Road Commission for Oakland County Retirement System

**Notes to Financial Statements
December 31, 2005**

Note 1 - Summary of Significant Accounting Policies

The Road Commission for Oakland County Retirement System (the "System") is a single-employer defined benefit pension plan that is administered by the Road Commission for Oakland County Retirement System board of trustees. This plan covers substantially all employees of the Road Commission for Oakland County. The System's financial statements are also included in the combined financial statements of the Road Commission for Oakland County as a pension trust fund.

Basis of Accounting - The System uses the accrual method of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are recorded at fair value, based on quoted market prices.

Note 2 - Plan Description

The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The obligation to contribute to and maintain the System for these employees was established by negotiation with various collective bargaining units or other actions of the Oakland County Board of Road Commissioners. At December 31, 2004, the date of the most recent actuarial valuation, membership consisted of 445 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, 356 vested active employees, and 195 nonvested active employees.

Note 3 - Contributions

Plan members are no longer required to contribute to the plan. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed by the Road Commission for Oakland County.

Note 4 - Reserves

As of December 31, 2005, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 121,376
Reserve for retired benefit payments	75,920,421

Road Commission for Oakland County Retirement System

**Notes to Financial Statements
December 31, 2005**

Note 5 - Cash, Investments, and Securities Lending

The System is authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate, debt or equity of certain small businesses, certain state and local government obligations and certain other specified investment vehicles. The Act places percentage limitations on certain investments.

The System has designated two banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above. The System's deposits and investment policies are in accordance with statutory authority.

The System's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. At year end, the System had \$550,264 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. Each of the accounts of the System's six investment managers is insured by the Securities Investors Protection Act up to \$500,000 to replace cash (up to \$100,000), stocks, or bonds held by the broker-dealer. The System believes that due to the dollar amounts of cash deposits and the limits of FDIC Insurance, it is impractical to insure all deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Road Commission for Oakland County Retirement System

**Notes to Financial Statements
December 31, 2005**

Note 5 - Cash, Investments, and Securities Lending (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The System's investment policy does not restrict investment maturities other than commercial paper which, under state law, can only be purchased with no more than a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment Type	Fair Value	Maturity (Years)			
		< 1	1 - 5	6 - 10	> 10
U.S. Treasury	\$5,977,946	\$ -	\$ 836,022	\$ 167,544	\$4,974,380
U.S. agency	26,239,586	1,364,510	1,643,584	2,353,955	20,877,537
Corporate bonds	24,036,507	1,202,525	8,965,552	7,059,381	6,809,049

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. In the current year, the System had no investments in commercial paper. The System's investment policy does not further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U. S. government) are as follows:

<u>Rating</u>	<u>Fair Value</u>	<u>Rating Agency</u>
AAA	\$ 12,089,780	S&P
AA+	545,510	S&P
AA	1,250,695	S&P
AA-	2,339,553	S&P
A+	1,978,521	S&P
A	3,489,282	S&P
A-	1,335,511	S&P
BBB+	2,945,620	S&P
BBB	793,056	S&P
BBB-	1,441,746	S&P
Not rated	22,066,819	N/A

Road Commission for Oakland County Retirement System

**Notes to Financial Statements
December 31, 2005**

Note 5 - Cash, Investments, and Securities Lending (Continued)

Securities Lending Transactions

State statutes and board of trustees' investment policies permit participation of the System in securities lending transactions, loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The System, via a securities lending authorization agreement, authorized the custodial bank to lend the System's securities to broker-dealers and banks pursuant to a form of loan agreement.

During the year ended December 31, 2005, the custodial bank, at the direction of the System, lent securities and received United States currency as collateral. Borrowers were required to deliver collateral for each loan equal to at least 100 percent of the market value of the loaned securities. At year end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. Contracts with the lending agents require them to indemnify the System if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities' issuers while the securities are on loan.

The System did not impose any restrictions during the year ended December 31, 2005 on the amount of the loans the custodial bank made on its behalf. There were no failures by any of the borrowers to return loaned securities or pay distributions thereon during the year ended December 31, 2005. There were no losses to the System or the custodial bank during the year ended December 31, 2005 resulting from default of the borrowers.

During the year ended December 31, 2005, the System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in a pool. The average duration of such investment pool as of December 31, 2005 was 99 days. Because the loans could be terminated on demand, their duration did not generally match the duration of the investments made with cash collateral. The collateral held and the fair values of the underlying securities on loan as of December 31, 2005 were \$14,975,960 and \$14,497,581, respectively.

Road Commission for Oakland County Retirement System

**Notes to Financial Statements
December 31, 2005**

Note 6 - Risk Management

The System's exposure to risks of loss, other than investment market loss, is minimal. Exposure is limited primarily to errors and omissions. The System manages this risk by participating with the Road Commission for Oakland County in its partially self-insured liability program.

Required Supplemental Information

Road Commission for Oakland County Retirement System

Required Supplemental Information Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Overfunded) AAL (b-a)	Funded Ratio (Percent) (a/b)	Valuation Payroll (c)	(Overfunded) AAL as a Percentage of Valuation Payroll
12/31/99	131,926,367	116,292,106	(15,634,261)	113.4	25,345,063	(61.7)
12/31/00	143,780,578	122,490,587	(21,289,991)	117.4	25,409,923	(83.8)
12/31/01	150,647,599	127,603,386	(23,044,213)	118.1	26,570,231	(86.7)
12/31/02	149,363,853	132,828,911	(16,534,942)	112.4	26,759,461	(61.8)
12/31/03	154,182,955	142,068,917	(12,114,038)	108.5	28,259,643	(42.9)
12/31/04	159,759,473	147,662,189	(12,097,284)	108.2	28,592,921	(42.3)

Analysis of the dollar amounts of the actuarial value of assets, actuarial accrued liability, and overfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded actuarial accrued liability as a percentage of annual valuation payroll approximately adjusts for the effects of inflation and aids analysis of the System's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

Road Commission for Oakland County Retirement System

Required Supplemental Information Schedule of Employer Contributions

Years Ended <u>December 31</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
2000	\$ 2,494,250	100.0
2001	2,235,000	100.0
2002	1,573,200	100.0
2003	1,895,360	100.0
2004	2,494,941	100.0
2005	2,819,103	100.0

The information presented above was determined as part of the actuarial valuations as of the year before the dates indicated. Additional information as of December 31, 2004, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age, normal cost
Amortization method	Level percent of payroll contributions, closed periods
Remaining amortization period	15 years
Asset valuation method	Market value with five-year smoothing of gains and losses
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	4.5% to 8.0%
Cost of living adjustments	None

* Includes pay inflation at 4.5%